Dear Members,

Welcome to the first newsletter for 2009!

Just over a year ago, I remember that we were gathered in the Venetian in Macau discussing issues on Risk Management. That could not have been more timely, with the Financial Crisis upon us in the last quarter of 2008. Who would have predicted that profitable businesses in Asia would be sold as a result of financial issues with their parent companies? Who would have thought that the market capitalization of some prominent banks would shrink so drastically?

Hence, the theme that we have chosen for this newsletter is the Financial Crisis. Enjoy the articles from leading consulting firm, insurance companies and the regulator in this issue of the newsletter.

Happy Reading…..

SIM NG
EDITOR
The Composition of 2009 ASHK Council

The following Council members have been nominated to head the various Committees of the ASHK this year. Let’s read about the Committees’ initiatives…

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The Life Insurance Committee will continue the works of the four working parties (AGN7—Dynamic Solvency Testing, AGN8—Investment Guarantees, Benefit Illustrations and Liability Valuations under Chapter 41) and organize the Appointed Actuaries Symposium.

The China Committee continues to provide support and assistance to the China Association of Actuaries in applying for membership of the International Actuarial Association.
Experience Committee Chairperson
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In 2009, the Experience Committee will follow through that for 2008, that is, to complete the industry experience study for mortality and critical illness benefits.

General Insurance Committee Chairperson
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The General Insurance Committee aims to:
• Promote dialogue between the Hong Kong Federation of Insurers and ASHK as a means of increasing the awareness of the general insurance industry and the value of general insurance actuaries. The immediate initiative would be to organize joint technical seminars such as the Employees’ Compensation seminar conducted last year, which received good reviews.
• Promote dialogue between general insurance actuaries in the industry. Possible options include evening talks and after work social gatherings.

Investment & Risk Management Committee Chairperson
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The Investment and Risk Management Committee will act as a platform to promote applications of various risk management techniques in Hong Kong. In 2009, it aims at enhancing the understanding of existing practices in the industry, resolving current issues and inviting a wider discussion on best practices in the region. Initiatives include conducting an industry-wide survey, producing guidance notes as deemed necessary, as well as organizing local and regional seminars and conferences.

Education Committee Chairperson
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The 2009 objectives for the Education Committee are:
• To assist as appropriate in the development of education for actuarial students and actuaries in Hong Kong.
• To assist developing local education seminars and projects for members to fulfill CPD requirements.
• To liaise with other actuarial associations offering international actuarial examinations.
Membership & Publications Committee Chairperson, Secretary & Treasurer
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The Membership and Publications Committee is dedicated to publish quarterly newsletters covering a variety of topics of interest to members. The editorial team welcomes suggestions for the newsletters’ themes and article contribution!

Professional Matters Committee Chairperson
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The Professional Matters Committee is responsible for updating the Society’s By-laws, Professional Standards and Actuarial Guidance Notes. It will work cooperatively with the Strategy and Projects Committee.

Retirement Schemes Committee Chairperson
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The objectives for the Retirement Schemes Committee in 2009 are:
- To serve as a platform for pension actuaries to share ideas and knowledge.
- To review the solvency requirements for defined benefit schemes in Hong Kong including Professional Standard 2.
- To discuss and suggest the changes to the Hong Kong’s old age security system.

Strategy & Projects Committee Chairperson
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The main focus of the Strategy and Projects Committee is to continue statutory incorporation. It is expected that the project will take 2-3 years for completion.
At times in the last quarter of 2008, there were undoubtedly moments when some insurers wondered why they had ever embraced “modern financial reporting frameworks”, underpinned by market consistent valuation and risk based capital requirements; 1 in 200 year events seemed to resemble London buses - none come for ages, and then three come at once!

This article provides some context to the developments of MCEV, Solvency II and IFRS in Europe, then considers how the development of these frameworks has been impacted by the financial crisis, and what this is likely to mean for insurers in Asia.

Financial Reporting in Europe and the US

Europe

An integrated move to mark-to-market reporting came (partly) as a result of the impact on value of the market downturn in Europe in the early part of this decade, and the subsequent call by analysts for more transparent and comparable financial reporting, and for capital requirements that were more reflective of true risk exposures. Existing metrics provided mixed signals on financial performance and analysts found this very confusing, which led to subsequent mark downs in company valuations.

In answer to the perceived shortcomings of existing accounting, performance measurement and risk metrics, accounting bodies, actuarial firms and the CFO Forum and CRO Forum developed mark-to-market valuation approaches for a variety of purposes. In particular:

♦ The Discussion Paper on Insurance Contracts published by the International Accounting Standard Board (“IASB”) set out a proposed approach to accounting for insurance liabilities that uses estimates of financial market variables that were as consistent as possible with observable market prices.

♦ The adoption by European headquartered life insurance groups united in the CFO Forum of a bottom-up market-consistent approach to the valuation of life insurance contracts (“MCEV”). This approach will be compulsory for CFO Forum members for embedded value reporting from 2010 onwards, with a number of companies already reporting on this basis.

♦ The draft Framework Directive, covering the Solvency II project – which defines a new framework of regulatory requirements for insurers across Europe – also prescribes a market-consistent approach to the calculation of technical provisions and economic assessment of capital. The CRO Forum has been actively involved in providing feedback to regulators around these developments.
United States

There have also been a number of recent developments in US GAAP reporting that make more use of fair value techniques. Principle (rather than rules) based reserving is being introduced in the US and rating agency capital models are being updated to address a number of perceived shortcomings. An examination of these developments in the US would require a separate article, but it is clear that the use of mark-to-market valuation techniques has also gained ground in the US.

Mark-to-Market Valuation and the Financial Crisis

Whilst some (e.g. troubled US banks) have blamed mark-to-market accounting for making the Financial Crisis worse, others (e.g. investors, auditors) are strongly in favour, arguing that if companies had valued their commitments properly from the start, they would have been better able to manage the emerging risks.

Impact of Crisis on MCEV, Solvency II and IFRS Phase II

As a result of the distressed markets, the IASB has spent much of the last six or so months dealing with the fallout from the financial crisis, e.g. providing guidance on applying fair value in inactive markets. It returned however to the issue of future insurance accounting at its February meeting, where a number of tentative decisions were taken:

- A measurement approach for insurance contracts should use estimates of financial market variables that are as consistent as possible with observable market prices. The approach adopted should use explicit current estimates of the expected cash flows, reflecting the time value of money and include an explicit margin for risk and uncertainty.

  The margin at inception of a contract should be measured by reference to the premium and therefore no day one gains should be recognised in profit or loss.

- An approach that uses an estimate of future cash flows with no margins and no discounting will not be added to the list of candidate measurement approaches for non-life claims liabilities.

The IASB has also said that it still expects an Exposure Draft to be available in December of this year, and a final standard in May 2011!

The CFO Forum is working on clarifying the application of the European Insurance CFO Forum Market Consistent Embedded Value Principles (“MCEV Principles”) in turbulent markets including whether to allow insurers to take credit for liquidity premiums (particularly on corporate bonds) when valuing non-liquid insurance liabilities. This issue had become more significant as credit spreads widened greatly in the last quarter of 2008.

At the end of March, the Solvency II Directive was agreed in Brussels and will be put to a vote in the European Parliament in April or May of this year. The Directive is apparently being supported precisely because the current financial crisis has demonstrated the importance of risk-based capital requirements and high standards of regulatory supervision. The deadline for implementation is October 2012.

Given these recent developments, mark-to-market reporting is still very much on the agenda. The Committee of European Insurance and Occupational Pensions Supervisors (“CEIOPS”) argued recently that one of the main lessons from the Financial Crisis was that the Solvency II Framework must be adopted because it was at times of crisis that supervisors had an even stronger need for harmonized and risk-oriented information on the financial soundness of the companies they supervised.
What Does This Mean for Insurers in Asia?

For those companies that are parts of European multinationals, it will mean that MCEV reporting and an economic assessment of capital along the lines outlined in the Solvency II Framework Directive will be required. IFRS reporting under Phase II will also be based around market consistent valuation. In addition to these international reporting bases, these insurers will also have to report under local requirements which are typically less market value based. There is clearly the potential for “reporting overload”, and confusion about the financial strength of companies given the mixed messages that a mixture of market value and book value metrics can give.

For year-end 2008 EV and MCEV reporting, we have seen some Hong Kong companies address the very low level of interest rates and significant widening of credit spreads by including a liquidity premium in the valuation. However, these dislocated and turbulent markets have also significantly affected more traditional reporting metrics such as HKFRS accounts and statutory solvency reporting where valuation rates are linked to prevailing government bond rates.

“There are a number of challenges to be overcome in Asia when applying market consistent metrics, not least of which is the absence of deep and liquid debt markets in a lot of Asian markets.”

For local insurers in markets where the regulators are on record as stating that they intend to introduce IFRS Phase I by 2011, the notion of market consistent valuation may seem a long way away. However, insurers will need to consider carefully what IFRS Phase I will mean for them. When IFRS Phase I was introduced in Europe, some insurers underestimated the earnings volatility that would arise from valuing fixed interest assets at market value, whilst continuing to value liabilities at book value. To counter this earnings volatility, a number of insurers subsequently introduced liability valuation bases based around risk free yield curves, i.e. taking a step towards market consistent valuation under IFRS 4. This will obviously present system challenges and require education of senior management as to what they should expect under this metric.

Some local regulators are also actively considering risk-based capital measures and in order to frame these they are looking to developments in Europe. By introducing these measures, regulators want to ensure that if companies have significant risk exposures e.g. a large mismatch between the duration of assets and liabilities that they are required to hold capital to cover these exposures. Clearly, however, recent events will also have illustrated how volatile risk-based (non-book value) metrics can be, even for companies that are extremely well managed.

There are a number of challenges to be overcome in Asia when applying market consistent metrics, not least of which is the absence of deep and liquid debt markets in a lot of Asian markets. However, a number of European companies who already report under these metrics are having to solve these types of problems and, with their advisers, are developing techniques to value assets and liabilities in these markets.

Moreover, it is precisely because of the absence of deep and liquid debt markets in Asia, that make the application of market-consistent metrics to identify and understand risk exposures, a sensible and necessary first step in the management of these risks.
What Can We Learn from European Experience?

Implementing market-consistent valuation techniques is challenging, for a variety of reasons, some of which are outlined in this article. However, the European experience indicates that it is better to make a move towards providing greater transparency of your own volition, than have these requirements imposed upon you. It can also be extremely beneficial to a company’s market valuation or credit standing to be seen to be ahead of the game and providing greater transparency.

As a minimum, insurers should be examining the dynamics of their business under market-consistent measures for internal management purposes. Because Asia is behind Europe in this area, it can also take the opportunity to learn from how new developments, like MCEV, are received there, and what lessons it needs to take on board when communicating to senior executives, investors, analysts and rating agencies about these measures and the models underlying them.

In my experience, a number of more general lessons can be learned from Europe, some of which apply to any large scale reporting process redesign project, but are nevertheless worth highlighting.

- Playing catch up is never fun.
- Insurers need to be actively involved in shaping these metrics to make sure that they reflect the way their business is managed in practice, in order to ensure that greater transparency is achieved.
- Taking time to understand the potential impact of these changes on profits, shareholders’ equity and capital requirements is key in a company’s efforts to educate senior management, shareholders, analysts and rating agencies.
- The application of market-consistent metrics highlights the cost and risks associated with long-term guaranteed products. These risks are even more significant in Asia where the absence of deep and liquid markets means that insurers cannot match long duration liabilities.
- Some of these new demands have what often appear to be long-term time frames for implementation, e.g. 2011 or later. The reality is, however, that it takes years to update systems, test those changes and understand and gain confidence in results from a new means of measuring risk and value.
- Cross-border M&A increases the need to understand the different impacts of International versus local reporting frameworks.
- An integrated approach to the implementation of all types of market-consistent reporting will ensure that you get the most out of your efforts in this area.
- Intermediate regulations can often be around a lot longer than you initially anticipate!

“Implementing market-consistent valuation techniques is challenging … Insurers in Asia should accept this challenge, albeit a difficult one, rather than shy away from it.”
Will Market-Consistent Valuation Pass Asia By?

The Financial Crisis has proved that capital markets are truly global. Given that mark-to-market approaches are still very much on the agenda in Europe and the US, it is only a matter of time before questions are raised by investors and analysts about what insurers in Asia are doing in this field.

Insurers in Asia should accept this challenge, albeit a difficult one, rather than shy away from it. Those that adopt these measures will benefit from the insights gained into their actual risk exposures, how they might manage these risks and what benefits this would bring them.

Whilst some of the details of market consistent reporting may need to be refined or in some cases reconsidered, particularly for primary financial reporting, the pillars of reporting under these frameworks have been established. The actuarial profession in Asia needs to prepare itself to help other professions understand these metrics even if they do not (yet) form the basis under which we are required to report to regulators and shareholders, because ultimately in my opinion they will.

From my experience, implementing market-consistent valuation for the first time can be challenging. However, the potential alternate reception from shareholders and analysts (as represented by the cartoon below) to traditional measures is in my view a far less palatable alternative.

(Source: http://www.dilbert.com; Copyright of Scott Adams.)
Companies’ Perspective

So, what do insurers see as the challenges for their reporting results under "modern" frameworks such as MCEV, Solvency II/RBC and IFRS in Asia? How do insurers see the recent financial crisis affecting these developments?

Executives of four insurance companies, namely, HSBC Insurance, ING, Manulife Financial and Prudential share their views in the following...

The modern valuation methods such as MCEV aim to help the industry gain insights into the risk-adjusted value of the insurance business. They steer the industry to establish a common market-based, objective valuation benchmark, and thus enhancing the industry governance structure. However, we see the following challenges in the application of these new valuation principles:

- The fixed interest markets in many Asia countries are not sufficiently developed. In particular, bonds with long term maturities are not commonly available. This causes difficulty and subjectivity when we place values on long term cash flows.
- The mark-to-market process for insurance liabilities is more complicated than that for other financial products which are actively transacted. In particular, there are no readily observable market values of insurance liabilities and it is uncommon for investors to use MCEV as the basis for setting transaction prices in merger and acquisitions in Asia.
- The use of risk free rates in market consistent valuations may not give a complete picture of the value of an insurance portfolio, especially for business that relies on interest spreads as the key source of surplus.
- These modern techniques are subject to different interpretations and variety of views on economics. During this development stage, the process of the valuation involves much judgment. A wide spectrum of practices is observed which potentially leads to a non-level playing field.
- The upcoming Solvency II capital requirements for insurers appear to make balance sheets more volatile. There are already discussions among market practitioners that call for "counter-cyclical" measures such that more capital should be held during a time of economic expansion and perhaps a less stringent capital adequacy requirement during market downturn.

A statement published by the CFO forum in December 2008 said that "...the MCEV Principles were designed during a period of relatively stable market conditions and their application could, in turbulent markets, lead to misleading results..." We understand that members of the CFO forum are in the process of reviewing the application of the MCEV principles in the current market turmoil.

Ms. Estella Chiu
Regional Chief Actuary
HSBC Insurance, Asia Pacific
The idea behind Solvency II, and the underlying market measures essential to support its implementation are very simple: to improve consumer protection, increase transparency and modernise regulatory supervision. This, on paper and as a theoretical exercise, can be neatly accomplished by requiring insurers to more effectively evaluate and report their holistic risk profile and the accompanying measures taken to manage those risks. While this premise is laudable the practical execution of such a framework in today’s (and likely tomorrow’s) financial climate, where the relatively easier evaluation of the asset (let alone the liability) side of the balance sheet isn’t actually that easy, is fraught with danger, especially in the developing markets of Asia where reaching a consistent and stable valuation consensus over time using market information is not yet possible.

Consider the example of the Solvency Capital Requirement under the Solvency II framework, which is intended to function as a day-to-day target solvency level based on a 99.5% confidence level over a one-year period. This translates to the capital required to manage a 1 in 200 year event. Now contemplate how many times your company has experienced a 1 in 200 year event over the past six months on the basis of this calculated capital level: 2 times? 5 times? 10 times? Undoubtedly, this has led your senior management team to question not only the results (which themselves are highly sensitive to tweaks in the underlying models and parameters) but also whether this framework makes the most sense for disclosure purposes in an industry that hasn’t yet started to recover from a deeply nervous customer and investor base?

Yes, it’s true that Solvency II will increase transparency and force insurers to take a holistic view of risk management, a point which ING vehemently supports. But it comes at a cost that the Insurance industry must evaluate, especially given the capricious nature of financial valuation in incomplete Asian markets. For example, is your management willing to accept significant volatility in the disclosure of quarterly profits (calculated as the change in the Market Consistent Embedded Value) due to seemingly minor updates to the correlation matrix or tail distribution of how well persistency moves with market volatility? Typically such changes imply swings in profits far in excess of the expected, or priced for, levels, begging the question as to whether we should really be moving to managing our inforce traditional portfolios on an economic basis quarter-by-quarter?

So why worry now? Because the foundation and principles we set today form the metrics that we will have to rely on and live by tomorrow, for everything from facilitating management decisions, enhancing customer trust, enticing analysts and investors and reducing regulatory oversight. To get there will certainly require us to give a little more thought to how and what the existing proposals mean under the changing economic climate.
Unfortunately the evolution of ‘modern’ reporting frameworks have allowed a fair amount of choice on the part of insurers in terms of the basis for valuing liabilities so that the hoped for benefits of comparability of results between insurers have not be realized by the adoption of IFRS.

Similarly, MCEV allows a fair degree of latitude between insurers and in addition not all European insurers have moved from EEV to MCEV. Thus in some ways the evolution of financial reporting has had the opposite effect than was envisioned i.e. users of insurers’ financial statements face greater challenges understanding reported results due to lack of comparability and transparency under a more complex reporting system. The obvious drawback, particularly in times of turmoil, is that investors and even regulators, are surprised by actual results relative to their prior expectations resulting in an erosion of confidence.

Over the years, profit and solvency reporting have changed as life companies have provided greater clarity on their businesses and regulators have looked beyond simple deterministic valuations of insurance liabilities. Many of these recent initiatives appear to have been driven from Europe, though US GAAP reporting applies to Asian subsidiaries of many companies.

US GAAP has always been US-centric, posing some challenges when applied to Asian conditions. Implementation of the new European MCEV and Solvency II standards may also prove problematic for those Asian businesses that are required, or choose, to adopt them.

In Europe, recent technical debate around MCEV has focused on allowing for “liquidity premium” within the returns on assets backing illiquid liabilities, such as annuities. In the early days of MCEV development, this was not thought to be particularly significant. However, market events over the past year, and the resultant extreme widening of credit spreads, have elevated liquidity premium as a major issue for embedded value reporting. For Asian markets, the main question around market-consistent reporting is more fundamental: “What does market-consistent really mean when there’s not much of a market with which to be consistent?”

In many Asian markets, the absence of deep and liquid swap and bond markets, particularly at longer durations, creates difficulties in deriving even a basic risk-free yield curve. The data necessary for calculating the volatilities for stochastic modelling are often scanty, making calibration of economic models problematic. Whilst MCEV reporting was seen in Europe as a way of replacing subjectivity with observable market data, its application in markets with similarly credible market data demands as much judgement as before. It appears that Solvency II, with its “market value margin” and “value-at-risk” capital calculation, may be similarly challenging.

New profit or solvency reporting measures will continue to require actuarial judgement. As actuaries, our challenge is to use sound and consistent judgement in interpreting increasingly complex reporting requirements, as well as to explain clearly our methods and results to a predominantly non-actuarial audience. Recent market dislocations emphasise the need for these core actuarial skills.
Regulator’s Perspective

For this issue of the newsletter, the ASHK Editorial Team has also invited Ms. Angel Hon, Assistant Commissioner of Insurance of Long Term Business, to share with our readers her views on the future prospects of Hong Kong’s insurance market in the aftermath of the financial crisis, and the focus of the Office of the Commissioner of Insurance (“OCI”) in the coming year.

The impact of the credit crunch is of an unprecedented scale and many had described it as being worse than the 1929 great depression. Insurers appear relatively more resilient than some of the other financial institutions but raising further investor’s capital is surely a potential item on the agenda. Which direction do you see the HK insurance market heading as the industry is facing the aftermath of the crisis and where do you think the threats and opportunities lie for individual companies?

The insurance industry, as one of the largest institutional investors, cannot escape the fate of substantial write down of asset values and the low interest rate environment had further dampened many companies’ profit outlook in the short term. Since the last quarter of 2008 we have seen the worsening of companies’ solvency positions, which is not limited to the small and mid tier corporations but also include the bigger multinationals.

While the industry may face some difficult times ahead, I am confident in Hong Kong’s long term economy, as well as in the life insurance industry. The business statistics indicates that there is a drop in consumer confidence in the investment-linked products. This is by part due to the poor investment market sentiment but more so by the alleged mis-selling of the Lehman Brothers mini-bonds. Sales on traditional products had risen on the contrary, indicating the shift of product focus from managing wealth and preserving capital back to addressing the basic insurance needs of the consumers. The downturn of the economy may pose more budget restrictions on the consumers when they shop for insurance, perhaps lowering the policy size that they can afford, but the need for protection is fundamental. I believe there will still be growth in the insurance sector, but it will not come easily and will put insurers to great tests in terms of product innovation and sales process monitoring.

The Mandatory Provident Fund (“MPF”) is also a great opportunity for the insurance industry. It has been nine years since the launch of the MPF scheme and many of the members will be approaching their retirement age. This will create a need for annuity products with a fresh group of members with increasing level of accumulated funds looking to purchase the contract every year.

The Lehman Brothers mini-bonds saga and the near-collapse of AIG in the US have raised a lot of public concerns and started much discussion on the adequacy of regulatory controls in the finance and insurance sectors. What will be the focus of the OCI or the Hong Kong government in general, in the short and also the medium term?

The two incidents you mentioned had given the sector a lot of negative media attention and the industry itself had taken active steps to address the public’s concerns. In terms of sales process regulation the Hong Kong Federation of Insurers (“HKFI”) is currently in the process of revising the customer needs analysis forms and designing an information sheet on participating policies. Disclosure requirements in the product marketing literature, especially on investment products, are expected to be enhanced and the rules on offering a cool off period is also to be revisited.
The onset of the financial crisis has projected the reality that no one is too big to fail. This time round we are very determined to put this forward and are working together with the industry (represented by the HKFI) to map out the proposed scheme for public consultation and submission to the Legislative Council.

Another important topic on our agenda, but perhaps not in the short term, is the independence of the OCI itself. Currently the OCI is under the government hierarchy, more specifically under the Financial Services and Treasury Bureau. An independent status can help to create a more responsive body to the industry’s changing regulatory needs and also help the OCI in securing a more all-rounded pool of resources.

Some have attributed the scale of the financial crisis to inadequate and inefficient corporate governance. Where do you see the balance lies between realizing the principle of ‘big market, small government’ and providing enough guidance and control on the ways businesses are conducted?

Hong Kong as an international financial centre is a very unique market in which it is not a country and it does not have the level of resources that other markets might enjoy. To compete as a regional financial centre we must therefore run on a very open financial market architecture. Other than “big market small government” I think a better description of our philosophy may be that we let the market leads its way while the government provides the best support we can.

Although Hong Kong has benefited and probably will continue to benefit from the economic growth in China, we run on a very different system from the mainland. Again as we lack the resources and hence we need to play to our strengths in order to survive as an economy which is so heavily based on financial services. We must keep up with the international standards of proper corporate governance and maintain a comprehensive framework of infrastructure and regulations such that we continue to appeal to foreign corporations and investors and maintain the confidence in our financial systems.

The solvency regime in HK is one of the simplest in Asia and had sometimes been criticized as being static and purely rule-based. Do you think the Hong Kong market is ready to move towards a more dynamic approach (such as risk based or principle based regimes) and how should a change be implemented if a move should indeed be made?

Adopting a risk-based approach in setting solvency requirement is an international trend and we have seen many Asian countries following suit of the European regime. The Hong Kong regime is not risk-based in name but I would object to anyone saying that it is not risk-sensitive in nature. Our minimum requirement is termed rule-based and it is stipulated in law. As the regulator we require companies to maintain a buffer above the minimum requirement, the level of which is highly individual and assessed on each company’s specific circumstances and risk exposures.

The OCI is also working very closely with the HKFI on the formation of a Policyholder Protection Fund (“PPF”) which will act as a safety net for policyholders in case of insurer insolvency. The idea of setting up a PPF was actually first discussed in 2002. At the time the OCI had commissioned a consultancy study to be made on a feasibility of a PPF but the results of the study had indicated much resistance from the industry on the idea. Not only will the PPF levy increase the manufacturing costs of the business, some of the bigger players felt that the safety net is effectively requiring the bigger, capitalistically stronger players to subsidize the smaller companies with lower capital level and lower ability to withstand volatility.

Interviewee:
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Assistant Commissioner of Insurance

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Note: Views expressed are not necessary those of The Actuarial Society of Hong Kong
When put to the test by the financial crisis our approach had so far proved to be relatively robust when compared to the other regimes in the region. At the end of the day we are not trying to place excessive burden on the insurers, and yet we cannot afford to have policyholders’ rights in anyway compromised. This is an intricate balance and that is also why we need to maintain very frequent and open conversations with each company to understand their business circumstances and also their risks.

Having said that this does not mean we are never to change. We have always been very conscientious in keeping ourselves up-to-date with the latest regulatory developments in our neighboring countries and beyond. It is not our intention to be a forerunner in implementing the most newly devised regime, but mindful to learn from other markets’ experiences in the context of protecting the interests of the policyholders as our primary objective.

The issue of bonus payments to senior corporate executives has recently been under the spotlight quite intensively. Will this be an area that the HK government would like to issue guidelines on or to encourage companies to think harder about?

The Hong Kong government does not place any form of restrictions on executive payouts as we see this as a commercial decision made by the corporations to manage their businesses. We respect the legal system and the contractual rights not only for the employers and the corporations but also for the individuals, and we think anyone can expect their contractual terms to be honored without intervention.

There are often specific reasons for which this maybe happening in other markets and some of the main ones are the deployment of significant level of government aid or even for political reasons. I cannot see this taking place in Hong Kong where the tax regime is simple and low which leave relatively little scope for any potential bailout and hence any active participation in the running of an organization.

When it comes to the issue of paying shareholders dividends, however, the OCI is empowered to intervene under solid grounds of suspicion of malpractice. If we have strong reasons to believe that the policyholders’ interest may be jeopardized by the dividend payment, we can and we will exercise the power granted to us by the regulations to stop such actions.
The financial crisis has cast a shadow over the worldwide economy and posed a series of questions on risk management. How can the actuarial profession help strengthen global financial risk management from the lessons learned? On 9 March 2009, the Institute of Actuaries of Australia (“IAAust”) announced a global risk management framework to improve financial governance and help prevent future financial crises. The proposed framework comes as global leaders formulate new regulatory regimes in response to the collapse of financial markets and systems around the world.

The report, *Dealing with Predictable Irrationality – Actuarial Ideas to Strengthen Global Financial Risk Management*, has been developed by the International Actuarial Association – a global body representing the Actuarial profession worldwide.

At a media briefing in Sydney on 9 March 2009, Australian Institute President Trevor Thompson said the report had wide-reaching implications for regulators globally as they consider measures to strengthen the financial system.

> “While Australia’s banking system has proven its robustness, we are clearly not insulated from global events. The skills and approaches actuaries have been developing over many years are now more relevant that ever as nations and organizations look to practices that will better detect and mitigate the impact of calamitous risks in the future,” Mr Thompson said.

Leading Australian actuary and Chair of the International Actuarial Association’s Enterprise and Financial Risk Committee, Tony Coleman, said there were many lessons to be learned from the current crisis.

> “Failures in the banking system highlight the need for stronger systemic risk management at a micro level for individual entities, and at a macro level for the system as a whole,” he said.

**Bubble Trouble**

The report calls for the introduction of counter cyclical regulatory arrangements that allow for changes in capital requirements when early warnings of bubbles emerge. “Putting in place capital shock absorbers that build capital capacity in boom times would allow for the gradual and controlled deflation of bubbles with a reduced impact on systems and the economy,” Mr Coleman said.

The role of a Country Chief Risk Supervisor is also being put forward as a way to better manage risks across geographic boundaries and industries through improved policy setting, risk monitoring and responsive decision making.

Wider use of risk management concepts is being urged at a micro level so individual entities anticipate extreme events and more consistently measure and report on risk indicators. In particular, the actuarial concept of a ‘control cycle’ approach has been recommended as an effective tool that allows for extreme outliers and long term risks, and reports on the financial condition of entities from a wider risk management perspective beyond published accounts.
An excessive focus on Value at Risk modeling that measures the minimum amount of loss and the absence of risk-sensitive capital charges for sub-prime lending and CDOs were among the primary drivers of the current crisis. Stringent risk models must now be embedded in appropriate risk governance and supported by an entity-wide risk culture,” Mr Coleman said.

Mr Coleman said remuneration incentives should be linked to risk culture to drive behavioral change.

“A sound risk culture will ensure timely reporting of risk critical information that allows management to take corrective action before risks erupt. Remuneration is a key driver of cultural change and so we support increasing capital requirements for market participants with remuneration incentives focused excessively on short term results,” he said.

Mr Thompson said the actuarial profession in Australia was well placed to drive risk management reform. “A considerable investment is being made in actuarial education and research into enterprise risk management practices to ensure we have the skills to meet the emerging challenges,” he said.


The PowerPoint presentation on the same topic delivered by Mr. Trevor Thompson at the ASHK Luncheon Meeting on 30 March 2009 is available at the ASHK website: http://www.actuaries.org.hk/upload/File/LM090330.pdf.

(The article first appeared in the media release of the IAAust issued on 9 March 2009 and is reproduced with permission.)
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Email: recruit-hk@darwinrhodes.com.hk

Or Visit our website: www.darwinrhodes.com.hk
Climate Change Survey Findings

BY ASHK CLIMATE CHANGE WORKING GROUP

In May 2008, the Climate Change Working Group (“CCWG”) sent out a survey to understand the views of the ASHK on climate change. We asked 6 simple questions, and present the results to you in this short article. The response rate of 26% was encouraging – 166 members out of a (then) total of 640 responded.

Main Findings

The results of the survey are shown at the end of the article. We highlight here some key findings from the survey, particularly referencing comments made by participants.

Overall, there seemed to be no doubt that climate change is happening, with over 88% of respondents saying ‘yes’. Almost as convincingly, 83% of respondents said that ‘yes’, if climate change is occurring, it will have a major impact on society. Respondents’ comments about this latter question mentioned natural weather disasters as the chief cause of this impact on society, but also including agriculture and disease.

On the question of whether the human race could take action to prevent climate change, only 38% answered ‘yes’, and 42% ‘probably’. The consensus amongst respondents seemed to be that the human race had the potential to slow and perhaps mitigate the effects of climate change.

Moving to the insurance industry, respondents were not convinced that climate change would have a major impact on company investment strategy, but (almost) equally did not believe that the impact would be low. In fact, respondents said that the impact would be minor (34%) or moderate (45%). Respondents seemed to agree that the impact would be greater in the longer-term, but that currently there is less of an impact.

For non-life insurance, 40% of respondents believed that climate change will have a moderate, and 50% major, impact on general insurance company pricing and reserving. While a number of respondents highlighted natural catastrophe events as the cause of the impact, a few suggested that the impact would increase on a longer timeframe.

The final question asked whether insurance companies should actively contribute to the mitigation of climate change through various means (asset allocation, corporate actions, pricing pressure etc). 48% thought ‘yes’ and 37% answered ‘probably’, although opinions varied widely on the type of action that could be taken.

To end the article, it is worth linking in with the results of the Institute of Actuaries Climate Change survey in the UK. Respondents also believed that climate change was occurring; they generally believed within investment allocations that certain stocks should be treated with caution (as opposed to an overall threat to investment portfolios or that no specific asset allocation action is necessary); and within non-life insurance pricing and reserving, believed that model assumptions may need to be modified (rather than representing a unique risk which cannot be dealt with by existing models, or that no specific action need be taken). Readers can visit the UK working party website for full results of the survey:
http://climatechange.pbwiki.com
Further CCWG Activities

The CCWG will continue to work with the aim of reflecting and researching on how actuaries should allow for climate change in their daily work.

For further information, including an article relating to the potential impact of climate change on financial institutions’ assets and liabilities, please feel free to visit our web-page within the ASHK website – follow the ‘Publications’ tab and click on ‘Climate Change’, or click on the link: [http://www.actuaries.org.hk/publications.php?id=23](http://www.actuaries.org.hk/publications.php?id=23)

Summary of Survey Results

**Q1: Do you think climate change is really happening?**

- Yes: 88.6%
- Probably: 10.2%
- Probably Not: 0.0%
- No: 0.6%
- Unknown: 0.6%

**Q2: If climate change is happening, will it have a major impact on society?**

- Yes: 83.1%
- Probably: 15.1%
- Probably Not: 0.0%
- No: 1.2%
- Unknown: 0.6%

**Q3: If climate change is happening, could the human race take action which would prevent it?**

- Yes: 38.0%
- Probably: 41.6%
- Probably Not: 15.0%
- No: 4.2%
- Unknown: 1.2%
### Summary of Survey Results (Continued)

#### Q4: How much impact do you expect climate change to have on insurance company’s investment strategy?

<table>
<thead>
<tr>
<th>Impact</th>
<th>Percentage</th>
</tr>
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<tbody>
<tr>
<td>Unknown</td>
<td>4.8%</td>
</tr>
<tr>
<td>Major impact</td>
<td>9.0%</td>
</tr>
<tr>
<td>Moderate impact</td>
<td>44.6%</td>
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<tr>
<td>Minor impact</td>
<td>33.8%</td>
</tr>
<tr>
<td>Low impact</td>
<td>7.8%</td>
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</tbody>
</table>

#### Q5: How much impact do you expect climate change to have on general insurance company’s pricing and reserving?

<table>
<thead>
<tr>
<th>Impact</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
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<tr>
<td>Major impact</td>
<td>50.0%</td>
</tr>
<tr>
<td>Moderate impact</td>
<td>40.4%</td>
</tr>
<tr>
<td>Minor impact</td>
<td>4.2%</td>
</tr>
<tr>
<td>Low impact</td>
<td>1.8%</td>
</tr>
</tbody>
</table>

#### Q6: Do you think insurance companies should actively contribute to the mitigation of climate change through various means (assets allocation, corporate actions, pricing pressure, etc)?

<table>
<thead>
<tr>
<th>Response</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Unknown</td>
<td>3.0%</td>
</tr>
<tr>
<td>No</td>
<td>3.0%</td>
</tr>
<tr>
<td>Probably Not</td>
<td>9.6%</td>
</tr>
<tr>
<td>Probably</td>
<td>36.8%</td>
</tr>
<tr>
<td>Yes</td>
<td>47.6%</td>
</tr>
</tbody>
</table>
You will be responsible for assisting the Chief Actuary lead the actuarial dept for this leading Insurer. You will have active involvement in all actuarial teams in pricing, valuations and business planning.

- Responsibility for all areas of actuarial input
- Key influence in business initiatives/strategy
- Fellow with minimum 10 years Life actuarial experience
- Consideration given to those with solely valuations or pricing experience
- Both English and Mandarin language skills required
- Strong management experience

Contact James Lecoutre for more information.

Our client, a highly recognised consulting firm, is looking for motivated candidates to sell and market their software solutions in the Asia Pacific Region. Located in either China or Hong Kong you will contribute to the growth and development of new and ongoing sales.

- Managing clients needs and expectations and developing solutions
- Superior problem solving skills
- Strong personal communication, written and presentation skills
- Ability to work independently and as part of a team

Contact Claire Street for more information.

Our client’s ability to innovate and introduce cutting edge products into the market has helped to maintain its enviable reputation in the Indian marketplace. Much of this credit lies with the actuarial function that has been led by some of the most highly regarded actuaries in the industry.

- Nearly/newly qualified Actuary
- Reporting to the Appointed Actuary
- At least 4 years life insurance experience, 3 years in EV/Planning
- Experienced in managing people
- An innate desire to succeed in a unique market

Contact Alex Babic for more information.
New Members Welcome

Fellows
David Laurence BURTON, FIA (1992)
Celia Hei CHAN, FSA (2004), New York Life
Martin FORTIER, FSA (1999), FCIA (1999), Sun Life
Wilson HO, FSA (2007), FCIA (2007), Sun Life
Sze-King LUI, FIAA (2008), ING Life
Richard John McINTYRE, FIA (1992), HBOS Financial Services
Marc PIERROT, actuary qualifie IA (1994), AXA
Peter TAN, FIAA (1993), RGA

Associates
Alexander BOGDANOVOV, ASA (2007), MAAA (2007), Sun Life
Anna Yee-Ching IEOONG, AIAA (2003), Manulife
Kah Hoa KHOR, ASA (2008), Aviva
Gary LEE, AIAA (2006), Manulife
Dirk ROHMEDER, Actuary (DAV) (2007), Swiss Re
Hok-Ting WAN, ASA (2008), Manulife
Wei XIE, ASA (2007), China Life
Wen XU, ASA (2006), Transamerica Re
Jacky T.K. YEUNG, ASA (2005), Milliman
Christopher YIP, AIAA (2003), ING Life
Kin-Man YU, ASA (2008), AXA China Region
Jianan ZHANG, ASA (2005), Deloitte

Students
Alex Ka-Hin CHAN, SOA Student, Hewitt Associates LLC
Ian Tat-Pong CHENG, SOA Student, Manulife
Philip Long-Wai CHEUNG, IoA Student, Deloitte
Vivian Sui-Wan CHIU, SOA Student, Deloitte
Vicky Yin-Ying CHOW, SOA Student, Manulife
Andy Chun-Kit HO, SOA Student, MassMutual
Henry Man-Tat HO, SOA Student, Prudential
Wesley HONG, SOA Student, ING Life
David Ching-Yeung KWOK, SOA Student, Manulife
Tik-Chun KWOK, SOA Student, MassMutual
Roger Chun-Hei LAM, IoA Student, ING Life
Stella Hei-Man LAM, SOA Student, Deloitte
Tang-Hao LAM, SOA Student, MassMutual
Liang LEI, SOA Student, China Life
Darren Tsz-Hong NG, SOA Student
Chee-Fung WAN, SOA Student, Jace Group Ltd
Ted Chi-Chung WONG, SOA Student, Sun Life
Hok-Kan YU, SOA Student, MassMutual

Membership Upgrade

Fellows
Eva Ng-Wa CHENG, FSA (2008), Towers Perrin
Ricky Wai-Ki CHEUNG, FSA (2008), ING Life
Henry Yun-Chau CHEUNG, FSA (2008), ING Life
Jiong DU, FIA (2008), Transamerica Re
Jason Chi-Shing FUNG, FSA (2008), Prudential
Timo Sascha KRAUSE, FAAA (2005), Swiss Re
Maggie Mei-Ki LAU, FSA (2007), MassMutual
Cathy Ching LEE, FAAA (2008), Manulife
Keet-Ying LEE, FSA (2008), AXA
Jessie Jingxin LI, FSA (2008), Towers Perrin
Ken Chun-Kin TANG, FSA (2008), HSBC
Dorothy Hiu-Fai TSAI, FSA (2008), Sun Life
Alma Siu-Ying WONG, FSA (2008), RGA Re
Eric Man-Chun YAU, FSA (2007), HSBC
Wey How YEW, FIA (2008), Deloitte

Associates
Fiona Sze-Man CHAN, ASA (2008), ING Life
Jacky Ka-Ching CHAN, ASA (2007), HSBC
Pauline Po-Yin CHENG, ASA (2008), HSBC
Danny Wai-Ki CHOI, ASA (2008), HSBC
Rachel Yee-Man CHONG, ASA (2008), RGA Re
Jeany CHOW, ASA (2008), Towers Perrin
Shirley Sin-Yee FONG, ASA (2007), AXA China Region
Jasmine Tan-Ping HUI, AIAA (2007), MassMutual
Torres Kim-Fung LAI, ASA (2007), HSBC
Mandy Hoi-Man LEE, ASA (2008), KPMG
Jennifer Pui-Wai NG, ASA (2008), Manulife
King-Yin PANG, ASA (2008), HSBC
Leo Tsz-Leung POON, ASA (2008), Swiss Re
Dan Kwok-Ho WONG, ASA (2008), HSBC
Wandy Wan-Tai YAU, ASA (2008), Sun Life

Reinstated Members

Fellows
Joseph Tsz-Yin ALI, ASA (2006), Prudential
Fiona Wan CHENG, FSA (2002), Sun Life
Jacky Wing-Wai KWAN, FSA (2003), Prudential
Iris Wing-Sin LAU, FSA (2008), Prudential
Michelle Yee-Mui LAU, FSA (2006), New York Life
Henry Hon-Fai NG, FSA (2007), ING Life
Charles Chu-Ming YUEN, FIA (2008), Sun Life

Associates
Yew-Wai CHAI, AIAA (2001), ING Group
Daniel Tsz-Hong LEUNG, ASA (2007), Prudential
Grace Ho-Shuen LUK, ASA (2007), Prudential
Andi Siu-Wing NG, AIAA (2006), Sun Life
Chi-Wai NGAI, ASA (2003), BOC
Alice Mei-Kwun TIU, ASA (2007), Prudential
Michelle Yuen-Ying TSANG, ASA (2007), Prudential

Students
Eric Zhongli LIN, SOA Student, AIA
Minnie Jing YU, IoA Student, HSBC

Actuaries on the Move

Fellows
Robert CHEN
Angela KOCHELJ
Alice Yan KWOK
Sara Wai-Man LAU
Rockson Lok-Shuen LEUNG
Donovan NORTH

Associate
Wilson Wing-Yiu MA

Students
Alex Ho-Sang LAW
Gary Hon-Pan YU

Note: Views expressed are not necessary those of The Actuarial Society of Hong Kong
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ASHK Newsletter

Events Highlights

VOLUME 01/2009

HKRSA & ASHK Joint Luncheon Meeting
18 Feb 2009

Speaker:
Mr. Hing-Wang Fung
Commissioner of Census & Statistics

Education & Careers Expo
19-22 Feb 2009

Our sincere thanks to volunteers!
It was our pleasure to have Mr. Nigel Masters, President of the Institute of Actuaries to give us a Luncheon Talk on “An Actuary’s Perspective on the Financial Tsunami”.

China Seminar on Risk & Solvency Management, Beijing
27 Mar 2009
The President of the Institute of Actuaries of Australia, Mr. Trevor Thompson visited Asia in March. The ASHK invited him to give a Luncheon Talk on “Dealing with Predictable Irrationality – Actuarial Ideas to Strengthen Global Financial Risk Management” on 30 March 2009.

On the same evening, the IAAust Presidential Dinner was held in the Shanghai Garden in Central. IAAust volunteers were invited to attend.
How to play:

- Place the digits 1 to 9 into a grid of squares so that each horizontal or vertical run of white squares adds up to the clue printed either to the left of or above the run.

- Numbers below a diagonal line give the total of the white squares below; numbers to the right of a diagonal line give the total of the white squares to the right.

- No digit can be repeated within any single run. Runs end when you reach a non-white square.

**Kakuro**

A prize will be presented to the member who submits the first correct entry of **both the Kakuro and the Puzzle Corner Game**. Join the game and submit your entry to ASHK Office by email: actuaries@biznetvigator.com **NOW!!!**

**Solutions for December 2008:**

**Puzzle Corner**

1. How many squares, of any size, can you find on this chess board which do not contain a Rook?
   
   **Clue:** more than 100

2. How many hexagons, in total, can you find in this puzzle?
   
   **Clue:** more than 45

**Prize to Give Away!**
Joint Regional Seminar

OBJECTIVE

Jointly organized by the Faculty & Institute of Actuaries, Institute of Actuaries of Australia and Society of Actuaries with the support of local actuarial bodies, this Joint Regional Seminar is designed to assist actuaries and other professionals in meeting CPD requirements.

TOPICS (PROVISIONAL)

For this year, the seminar will cover Actuarial Systems, Pricing, Economic Models and Investment Strategy under the main theme of “Financial Reporting and Applications in Practice”.

SCHEDULE

It will be held in 4 Asian cities and the seminar schedule is as follows:

<table>
<thead>
<tr>
<th>Dates</th>
<th>Locations</th>
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<tbody>
<tr>
<td>13-14 July 2009</td>
<td>Kuala Lumpur (1.5 days)</td>
</tr>
<tr>
<td>15-16 July 2009</td>
<td>Taipei (1.5 days)</td>
</tr>
<tr>
<td>17 July 2009</td>
<td>Hong Kong* (1 day)</td>
</tr>
<tr>
<td>20-21 July 2009</td>
<td>Shanghai (1.5 days)</td>
</tr>
</tbody>
</table>

* The seminar in Hong Kong will take place in Renaissance Harbourview Hotel. Venues for other locations are to be confirmed.

This seminar has attracted over 100 participants in every location for the past years. Participants can additionally meet fellow professionals in this seminar so as to network and exchange ideas. So, mark your calendar and plan to attend this event! Registration will start soon. Watch out for seminar updates & registration information at http://www.actuaries.org.hk in due course.

Don’t miss this CPD opportunity!

Looking forward to your participation!

Taipei      Hong Kong

Kuala Lumpur  Shanghai
Have you ever considered being part of the voice of the actuarial profession in Hong Kong and having impact on the future direction of the profession worldwide through participation in the International Actuarial Association (IAA)'s sections. The ASHK has become a full member of the IAA since 1999. Currently, the IAA has the following seven sections:

- AFIR, Actuarial Approach for Financial Risks
- ASTIN, Actuarial Studies in Non-life insurance
- AWF, Actuaries Without Frontiers
- IAAHS, International Actuarial Association Health Section
- IAALS, International Actuarial Association Life Section
- IACA, International Association of Consulting Actuaries
- PBSS, Pensions, Benefits and Social Security Section

If you enjoy planning and executing activities for the benefit of the global actuarial profession, you are encouraged to join any of the IAA Sections. More details can be found at the IAA website: [http://www.actuaries.org/index.cfm?LANG=EN&DSP=SECTIONS&ACT=INDEX](http://www.actuaries.org/index.cfm?LANG=EN&DSP=SECTIONS&ACT=INDEX).
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Emily Lye Tel: (852) 2147 9420 Fax: (852) 2147 2497 E-mail: actuaries@biznetvigator.com

Contributions to the ASHK Newsletter

We welcome members’ contribution to the following sections of the ASHK Newsletter: Feature Article, Actuaries on the Move and Puzzle Corner.

Send correspondence to the ASHK Office at the address below. When sending in correspondence which has been created in a word processing program, when possible, email a copy of the file to either the editor’s or the coordinators’ e-mail address. Publication of contributions will be at editor’s discretion.

Corporate Advertisement

The ASHK will accept from insurance companies’ or actuarial consulting firms’ advertisements in the ASHK Newsletter provided that the advertisements do not detract from the actuarial profession. Positioning of advertisement will be at the editor’s discretion.

File Formats:
Advertisers have to supply the artworks which should be created in MS Word/PowerPoint/JPEG/PDF formats.

Advertising Rate:

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<th></th>
<th>One Off</th>
<th>Whole Year</th>
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<tbody>
<tr>
<td>Full page</td>
<td>HK$4,000</td>
<td>HK$3,600</td>
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